

**CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT POLICY  
FOR  
GLOBAL EQUITY SUB-ASSET CLASS ALLOCATION RANGES**

**May 11, 2009August 15, 2011**

*This Policy is effective immediately upon adoption and supersedes all previous Global Equity Sub-Asset Class Allocation Ranges policies.*

**I. PURPOSE**

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for determining the allocation of funds to the sub-asset classes within the Global Equity program. The design of this Policy ensures that investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing allocations to sub-asset classes within the Global Equity program. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with allocations among sub-asset classes within the Global Equity program.

**II. STRATEGIC OBJECTIVE**

The Global Equity program (the "Program") shall be managed to accomplish the following:

- A. Enhance CalPERS total return;
- B. [Hedge](#) against active (pre-retirement) liabilities; and,
- C. Provide diversification to CalPERS overall investment program.

**III. RESPONSIBILITIES**

- A. CalPERS Investment Staff ("Staff") is responsible for the following:
  - 1. All aspects of portfolio allocation including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Reporting to the Committee as appropriate about the performance of the Program, including sub-asset class programs.
  3. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Guidelines and Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of any violations and appropriate recommendations for corrective action.
  4. Recommending action concerning outside money management firms ("Managers") retained under contract to implement various investment strategies within the Program.
  5. Taking other action as deemed necessary to implement and adhere to the Policy.
- B. The [General Pension Consultant](#) ("Consultant") is responsible for monitoring, evaluating, and reporting periodically to the Committee on the performance of the Program relative to its benchmarks and other pertinent policies.

#### IV. PERFORMANCE OBJECTIVE AND BENCHMARK

The [benchmark](#) for the U.S. portion of the pProgram is specified in the Benchmarks Policy, is the ~~CalPERS Custom Wilshire 2500 Index~~. The benchmark for the international portion of the Global Equity program is the ~~CalPERS FTSE All World, ex US, ex Tobacco, Capitalization Weighted Index~~. The benchmark for the Global Equity Sub Asset Class Allocation Ranges Policy is specified in the Benchmark Modification and Benchmark Details Policy. The Global Equity program uses a variety of benchmarks which are deemed by the Committee to be relevant to each sub-asset category or program. The CalPERS Statement of Investment Policy for each specific sub-asset category or program identifies the pertinent benchmark or benchmarks for such category or program.

#### V. INVESTMENT APPROACHES AND PARAMETERS

##### SUB-ASSET CLASS ALLOCATIONS

The categories and ranges for global sub-asset classes shall be as follows:

Global Equity Sub-Asset Classes		
	Broad Ranges (CIO Authority)	Anticipated Range (SIO Authority)
Passive	50% - 100%	52% - 82%
Enhanced & Active	0% - 40%	10% - 30%
Alternatives (Corp Gov.; & Emerging Manager Program; RMARS)	0% - 25%	<del>53%</del> - <del>24</del> <u>13</u> %

- A. There are three broad categories: [Passive](#), Active/Enhanced (including equity based environmental strategies) and Alternatives. The Alternatives category includes the Corporate Governance program, ~~the Risk Managed Absolute Return Strategies (“RMARS”) program,~~ and the [Emerging Manager](#) Program, which includes the Manager Development Program (“MDP”) and the [Emerging Manager Fund of Funds](#) (“EMFF”).
- B. The “Broad Ranges” provide Staff flexibility in seeking to maximize the return per unit of [risk](#) for Global Equity. The “Anticipated Ranges” are the most likely resulting allocations. The rationale behind the ranges is as follows:
1. Passive: Passive equity investment (e.g., indexation) is a suitable approach for deploying Global Equity capital in the absence of sufficient suitable opportunities to add value through active management. The passive allocation range is purposely broad because good opportunities for “alpha generation” do not present themselves in a consistent manner, and it is impossible to forecast when good opportunities may become available. The Global Equity allocation to passive equity investment may be expanded from the “Anticipated Range” of 52% to 82% to the “Broad Range” of 50% to 100% upon approval by the Chief Investment Officer.
  2. Active/Enhanced: The “Active/Enhanced” sub-asset class encompasses both [enhanced indexation](#) and active equity [managers](#), including equity based environmental strategies. The availability of suitable managers for Active/Enhanced mandates varies widely depending on the type of mandate (which may be delineated along geographic, growth/value, or other factors). The Active/Enhanced allocation may be expanded from the Anticipated Range of 10% to 30% to the Broad Range of 0% to 40% upon

approval by the Chief Investment Officer. The maximum allocation to equity based environmental strategies is two percent.

3. Alternatives: The Anticipated Range for Alternatives, which includes Corporate Governance and, the Emerging Manager Program, ~~and RMARS~~, is set at ~~53%~~ to ~~2413%~~. The inherently non-traditional nature of these programs means that investment opportunities are frequently subject to capacity or [liquidity](#) limitations or other factors which call for a flexible approach to investment timing. The Anticipated Ranges for the three areas of Alternatives shall be as follows:

Global Equity Alternatives Allocation	
Alternative Category	Anticipated Range
Corporate Governance	2% - 8%
Emerging Manager Program (MDP & EMFF)	1% - 5%
<del>Risk Managed Absolute Return Strategies (RMARS) Program</del>	<del>2% - 8%</del>

The allocation to any Alternatives category may be expanded beyond the Anticipated Range of such category (as set forth above) upon approval by the Committee.

4. The ranges are meant to allow Staff the flexibility to fund current Board approved programs to the extent that there are competitive opportunities consistent with CalPERS RFP and contracting process. Staff will be making decisions based on a wide range of factors such as, but not limited to, the maturity, size and performance persistence of the manager, the prudence of the strategy, and the ability to successfully implement the transition.
- C. The range of geographic allocations between international and domestic securities is determined by the Committee. Each of the sub-asset classes within Global Equity incorporates investments in both domestic and international vehicles. Staff will use its best efforts to ensure compliance with applicable policy guidelines governing the allocation of Global Equity assets among domestic and international vehicles.

## VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS [Custodian](#).

## VII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS Master Glossary of Terms.

Approved by the Policy Subcommittee:	June 10, 2005
Adopted by the Investment Committee:	August 15, 2005
Revised by the Policy Subcommittee:	August 10, 2007
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Admin changes due to adoption of Benchmark Policy:	November 23, 2009
<u>Revised by the Policy Subcommittee:</u>	<u>August 15, 2011</u>

Asset Class Glossary: Equities  
Policy: Global Equity Sub-Asset Class Allocation Ranges  
April 21, 2008 August 15, 2011

**Benchmark**

A set of securities with associated weights that provides a passive representation of a market segment. A benchmark's return is often used as a comparative measure of a manager's performance results in an active portfolio.

**~~CalPERS Custom Wilshire 2500 Index~~**

~~The Wilshire 2500 Index, excluding tobacco stocks, and with dividends reinvested. The standard Wilshire 2500 comprises the top 2500 securities of the Wilshire 5000 Index, including Real Estate Investment Trusts and tobacco stocks, based on market capitalization, and is reconstituted annually. The Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.~~

**CalPERS Financial Times Stock Exchange (FTSE) All World, ex-US, ex-Tobacco, Capitalization Weighted Index**

The benchmark for the international equity asset class. The benchmark is created by Financial Times and reflects specific customizations, such as the exclusion of tobacco stocks as identified by the Investor Responsibility Research Center. The benchmark can be broken down into its underlying countries.

**Custodian**

A bank or other financial institution that provides custody of stock certificates and other assets of an institutional investor.

**Emerging Manager**

An external money manager with less than \$2 billion in assets under management.

**Emerging Manager Fund of Funds**

An investment approach where a Manager contracts with multiple emerging investment managers to create one diversified portfolio. Diversification is created by including emerging managers utilizing different investment strategies.

**Enhanced Indexation**

An equity-based strategy or synthetic strategy where managers are expected to add consistent alpha above the passive index by controlling tracking error at a level that is below traditional active management. For example, for U.S. large capitalization core equity, the expectation is a return of 1.00% per annum above the benchmark, net of fees, with annual tracking of 2.00%-2.50%.

**General Pension Consultant**

An individual or organization that provides specialized professional assistance to the Investment Committee in determining the pension fund's asset allocation model or optimal combination of investments in order to maximize risk-adjusted investment returns in a manner consistent with the State's long-term pension liabilities.

**Hedge (Hedging)**

A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

**Liquidity**

The ability to quickly convert a particular investment into cash at a low transaction cost.

**Manager**

A professional responsible for managing the securities portfolio of an individual or institutional investor. In return for a fee, the money manager has the fiduciary responsibility to choose and manage investments prudently for their clients. In CalPERS' case, an internal manager is a portfolio manager on the staff, while an external manager is an outside money management firm.

**Passive Investment**

Investing in a manner that attempts to replicate the characteristics and performance of a market index or benchmark. In theory, passive investing/management assures investment performance is neither worse nor better than the market as a whole. In practice, actual results differ from the results reported for the index due to transactions costs and tracking error.

**Risk**

A measurable probability of losing or not gaining value. Risk is differentiated from uncertainty, which is not measurable. Risk in this context is also referred to as "standard deviation", which is a statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution.